14.2 Non-Monetary Transactions

Policy Statement

It is the policy of the Province of Nova Scotia to account for non-monetary transactions in accordance with Canadian public sector accounting standards (PSAS).

Definitions

CARRYING AMOUNT

Carrying amount is the value of an item as recorded in the accounts of the Province, after adjustments, if any, for amortization or impairment in value. For a tangible capital asset, the carrying amount is the net book value (cost less accumulated amortization).

EXCHANGE AMOUNT

Exchange amount is the amount of consideration paid or received in a transaction as established and agreed to by related parties. The exchange amount reflects the actual amount of the consideration given for the item transferred.

FAIR VALUE

Fair value is the amount of the consideration that would be agreed upon in an arm's length transaction between knowledgeable, willing parties who are under no compulsion to act. It is essentially market price.

MONETARY ASSETS AND LIABILITIES

Monetary assets and liabilities are money or claims to future cash flows that are fixed or determinable in amounts and timing by contract or other arrangement. Examples include cash, accounts and notes receivable in cash, and accounts and notes payable in cash.

NON-MONETARY ASSETS AND LIABILITIES

Non-monetary assets and liabilities are assets and liabilities that are not monetary. Inventories, investments in common stock, tangible capital assets, and liabilities for rent collected in advance are examples of non-monetary assets and liabilities.

Non-monetary transactions are either:

(i) Non-monetary Exchanges

When non-monetary assets and liabilities are exchanged for other non-monetary assets and liabilities with little or no monetary consideration involved; or

(ii) Non-monetary Non-reciprocal Transfers

When non-monetary assets and liabilities are transferred without any consideration given in return. Donations of tangible capital assets are an example of non-monetary non-reciprocal transfers.

RELATED PARTIES

Related parties exist when one party has the ability to exercise, directly or indirectly, control, joint control, or significant influence over the other. Two or more parties are related when they are subject to common control, joint control or common significant influence. The Province and the entities within the Government Reporting Entity (GRE) are related parties as the Province has the ability to exercise control over the other entities within the GRE. As well, the entities within the GRE are related parties (e.g., a health authority and a regional centre for education) as they are subject to common control of the Province.

RELATED PARTY TRANSACTION

A related party transaction is a transfer of economic resources or obligations between related parties, or the provision of services by one party to a related party, regardless of whether any consideration is exchanged. The parties to the transaction are related prior to the transaction. In such cases, refer to 14.3 Non-Monetary Related Party Transactions.

TANGIBLE CAPITAL ASSET

A tangible capital asset (TCA) is a non-financial asset that is purchased, constructed or developed and:

i) is held for use in the production or supply of goods and services, for rental to others, for administrative purposes or for development, construction, maintenance, or repair of other capital assets;

ii) requires operating and maintenance expenditures and may need to be replaced in the future;

iii) has a useful life extending beyond an accounting period and is intended to be used on a continuing basis; and,

iv) is not intended for sale in the ordinary course of operations.

Policy Objectives

The objective of this policy is to ensure non-monetary transactions are accounted for appropriately and accurately in the Province's consolidated financial statements. Information about non-monetary transaction assists in understanding the effects of such transactions on the financial statements.

Application

This policy applies to the Province's departments and public service units contained in the General Revenue Fund (hereinafter referred to as "departments").

Organizations outside of the General Revenue Fund but within the Government Reporting Entity[1] are encouraged to adopt a policy that allows for the accurate and consistent reporting of non-monetary transactions. This policy should comply with the entity's generally accepted accounting framework. It is recognized that many entities may already have an appropriate policy in place.

Policy Directives

MEASUREMENT

In order to preserve an objective measurement of the value of a transaction, generally, a non-monetary transaction is measured at the fair value, with a general exception for transactions that do not have commercial substance (as described below).

There is a general requirement to measure an asset or liability exchanged or transferred in a non-monetary transaction at the more reliably measurable of:

- the fair value of the asset given up; and
- the fair value of the asset received.

The fair value of an asset for which comparable market transactions do not exist is reliably measurable when:

a) the variability in the range of reasonable fair value estimates is not significant for that asset (i.e., a number of fair value estimates are available, but all are similar); or
b) the probabilities of the various estimates within the range can be reasonably assessed and used in estimating fair value (i.e., a number of dissimilar fair value estimates are available, but the probability of each being the best estimate of fair value can be reasonably assessed, in which case the probabilities may be used to determine the expected fair value).

1 For definition, see Corporate Administrative Policy Manual #200, Chapter 4.1 Government Reporting Entity.

When an entity is able to reliably determine the fair value of both the asset received and the asset given up, the fair value of the asset given up is used to measure the value of the asset received unless the fair value of the asset received is more reliably measurable.

However, an asset exchanged or transferred in a non-monetary transaction is measured at its carrying amount (i.e., book value) when:

- the transaction lacks commercial substance;
- the transaction is an exchange of a product or property held for sale in the ordinary course of business for a product or property to be sold in the same line of business to facilitate sales to customers other than the parties to the exchange;
- neither the fair value of the asset received nor the fair value of the asset given up is reliably measurable; or
- the transaction is a non-monetary non-reciprocal transfer to owners that represents a spin-off or other form of restructuring or liquidation.

For non-monetary transactions that are not measured at fair value, an entity should measure an asset exchanged or transferred at the carrying amount (after reduction, when appropriate, for impairment) of the asset given up, adjusted by the fair value of any monetary consideration received or given.

The entity paying the monetary consideration measures the non-monetary asset received at the carrying amount of the asset given up plus the fair value of the monetary consideration paid.

The entity receiving the monetary consideration measures the non-monetary asset received at the carrying amount of the asset given up less the fair value of the monetary consideration received, unless the monetary consideration exceeds the carrying amount, in which case a gain is recognized for the amount of such excess.

COMMERCIAL SUBSTANCE

An entity determines whether an exchange transaction has commercial substance by considering the extent to which its future cash flows or service potential is expected to change as a result of the transaction.

A non-monetary exchange transaction has commercial substance if:

- the risk, timing, or amount of the future cash flows or service potential of the asset received differs from that of the asset given up (e.g., the asset received may be better suited for highway construction than the asset given up); or

- the entity-specific value of the portion of the entity's operations affected by the transaction changes as a result of the exchange, and the difference is significant relative to the fair value of the assets exchanged (e.g., realization of cost savings; realization of additional revenues, ability to launch a new program).

The term "entity-specific value" is a measure of the value of an asset in the context of the entity owning the asset. It includes all of the cash flow effects of a transaction on the entire entity. The entity uses its expectations about its use of the asset rather than the use assumed by marketplace participants. More precisely, entity-specific value is the present value of the cash flows an entity expects to arise from the continuing use of an asset and from its disposal at the end of its useful life, or expects to incur when settling a liability. Entity-specific value also considers the expected future service potential of an asset over its useful life.

DONATIONS – DEPARTMENTAL GRANT EXPENSE

In order to properly reflect the resulting decrease in resources, donations of tangible capital assets by the Province are recorded by departments of the General Revenue Fund as departmental grant expenses (i.e., a donation in lieu of a grant). The amount of departmental grant expense to be recorded is measured as per the above Measurement section. Donations of tangible capital assets generally have commercial substance. Disposal costs for donated tangible capital assets such as legal fees and selling commissions are recorded as an operating expense and are not netted against the gain or loss from disposal.

WRITE-DOWNS – DEPARTMENTAL OPERATING EXPENSE

Policy 14.1 Tangible Capital Assets states:

> "The net book value of a tangible capital asset is to be written down when conditions indicate the tangible capital asset no longer contributes to the government's ability to provide services or the future economic benefits are less than the net book value. Write-downs are not to be reversed. The amount of the write-down represents a charge against the department's budget appropriation."

Policy Guidelines

Each non-monetary transaction should be evaluated on an independent basis and the determination of the appropriate accounting treatment for each transaction requires the use of professional judgement. See examples described in Appendix 14-E.

Accountability

The process of accounting for and reporting non-monetary transactions is shared among and requires the collaboration of the following divisions within Finance and Treasury Board:

Financial Advisory Services (FAS) working with departmental representatives

- responsible for identifying, assessing, and tracking non-monetary transactions as well as ensuring that these non-monetary transactions are accounted for appropriately and completely, supported by sufficient audit evidence
- responding to Government Accounting inquiries regarding non-monetary transactions
- providing the Auditor General with the evidence requested for the audit of non-monetary transactions

Government Accounting

- responsible for providing guidance and advice relating to the appropriate accounting treatment for non-monetary transactions
- liaising with departments and the Auditor General, as needed
- updating this policy, periodically, in consultation with departments

Monitoring

Government Accounting will monitor the policy's implementation, performance, and effectiveness.

References

- Public Sector Accounting Standards, PS 3420 – Inter-Entity Transactions
- International Public Sector Accounting Standards, IPSAS 17 – Property, Plant, and Equipment
- Accounting Standards for Private Enterprises (ASPE), CPA Canada Handbook, Section 3831 – Non-Monetary Transactions
- Policy 14.1 Tangible Capital Assets

Appendices

Appendix 14-D	Non-monetary Transactions Decision Tree
Appendix 14-E	Examples

Enquiries

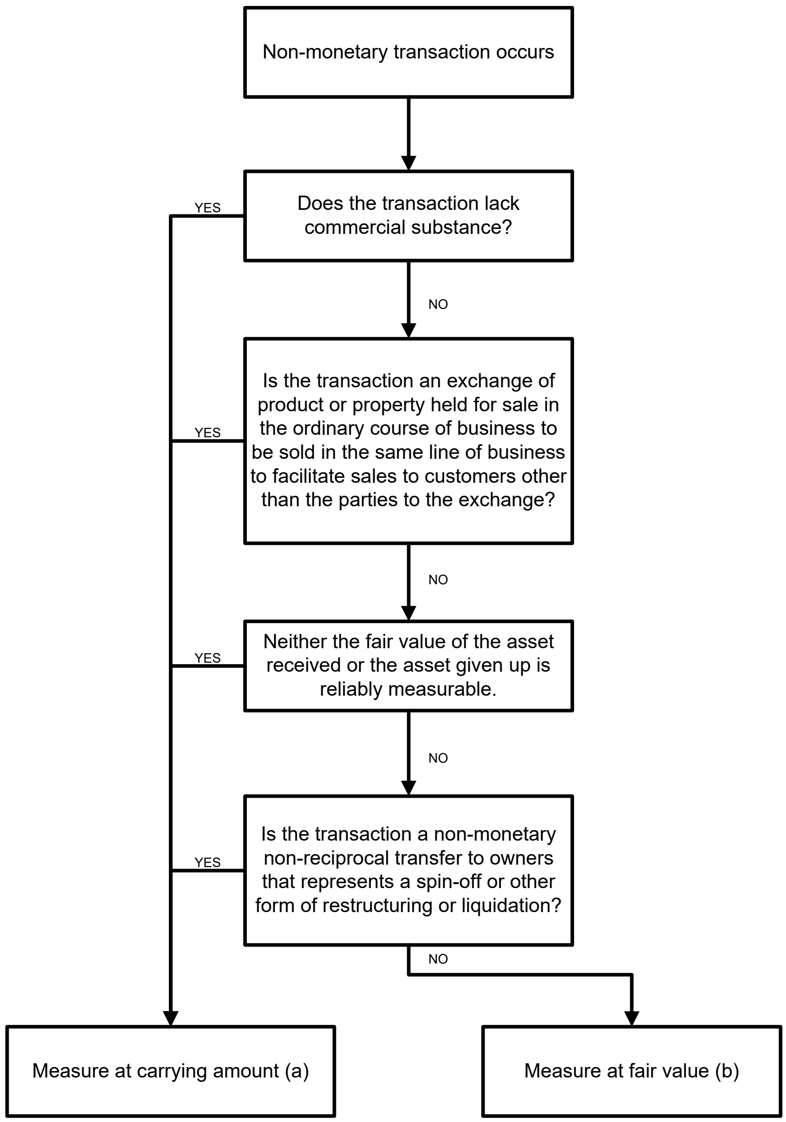
Executive Director, Government Accounting
Department of Finance and Treasury Board
(902) 424-2079

Approval date:	***July 31, 2008***	Effective date:	***August 21, 2008***
Approved by:	***Executive Council***	Administrative update:	***June 10, 2021***

Appendix 14-D

Decision tree

The following decision tree is provided for illustrative purposes.



Appendix 14-E

Examples

The following examples demonstrate the appropriate accounting treatment for transactions with entities outside the Government Reporting Entity (GRE), non-related parties, in a variety of circumstances.

Example 1

EXCHANGE OF TCA – LACKS COMMERCIAL SUBSTANCE

The Province exchanges a parcel of land with a carrying amount of $3,800 with an entity external to the GRE for a different parcel of land with a fair value of $7,500. The Province assesses the transaction and determines that it lacks commercial substance; as a result, the transaction should be recorded at the carrying amount of the asset given up. The Province would record the exchange as follows:

Debit:	TCA-Land (Parcel received)	$3,800
Credit:	TCA-Land (Parcel given up)	($3,800)

Example 2

EXCHANGE OF TCA INVOLVING PARTIAL MONETARY CONSIDERATION – LACKS COMMERCIAL SUBSTANCE

The Province exchanges a parcel of land with a carrying amount of $3,800 and fair value of $7,000 with an entity external to the GRE for a different parcel of land with a fair value of $7,500. The Province also pays $500 cash to balance the fair values of the parcels of land exchanged. The Province assesses the transaction and determines that the transaction lacks commercial substance; as a result, the transaction should be recorded at the carrying amount of the asset given up.

The entity paying the monetary consideration measures the non-monetary asset received at the carrying amount of the asset given up ($3,800) plus the fair value of the monetary consideration paid ($500). The Province would record the exchange as follows:

Debit:	TCA-Land (Parcel received)	$4,300
Credit:	TCA-Land (Parcel given up)	($3,800)
Credit:	Cash	($500)

Example 3

EXCHANGE OF TCA – COMMERCIAL SUBSTANCE

The Province exchanges a parcel of land with a carrying amount of $20,000 and fair value of $22,000 with an entity external to the GRE for a different parcel of land with a fair value of $25,000. The Province assesses the transaction and determines that it has commercial substance; as a result, the asset received should be measured at the fair value of the asset given up. The Province would record the exchange as follows:

Debit:	TCA-Land	$22,000
Credit:	TCA-Land	($20,000)
Credit:	Gain on Disposal of Assets	($2,000)

Example 4

DONATION OF TCA – DEPARTMENTAL GRANT EXPENSE

The Province donates a parcel of land in exchange to an entity external to the GRE for a nominal amount of $1. The carrying amount of the land is $72,000, and the fair value of the land is $1,500,000. The Province assesses the transaction and determines that it has commercial substance; as a result, the transaction should be recorded at the fair value of the asset given up. The Province would record the transfer as follows:

Debit:	Cash	$1
Debit:	Departmental Grant Expense	$1,499,999
Credit:	TCA-Land	($72,000)
Credit:	Gain on Disposal of Assets	($1,428,000)

Example 5

DONATION OF TCA INVOLVING PARTIAL MONETARY CONSIDERATION – DEPARTMENTAL GRANT EXPENSE

The Province donates a piece of land with a zero carrying amount and fair value of $129,000 to an entity external to the GRE for $3,000 cash. The Province assesses the transaction and determines it has commercial substance; as a result, the transaction should be recorded at the fair value of the asset given up. The Province would record the transfer as follows:

Debit:	Cash	$3,000
Debit:	Departmental Grant Expense	$126,000
Credit:	Gain on Disposal of Assets	($129,000)

Example 6

DONATION OF IMPAIRED TCA – DEPARTMENTAL OPERATING AND GRANT EXPENSE

The Province donates property to an entity external to the GRE for a nominal amount of $1. The carrying amount of the property is $4,400,000 which is in excess of the $1,200,000 fair value of the property. The value of future economic benefits associated with the property is less than its net book value. Since this reduction is expected to be permanent, the Province determines that a write-down of the property is appropriate.

The Province would record the write-down of the property as follows (14.1 Tangible Capital Assets Policy):

Debit:	Departmental Operating Expense	$3,200,000
Credit:	TCA-Land & Buildings	($3,200,000)

The Province assesses the transaction and determines it has commercial substance; as a result, the transaction should be recorded at the fair value of the asset given up. The Province would record the transfer as follows:

Debit:	Cash	$1
Debit:	Departmental Grant Expense	$1,199,999
Credit:	TCA-Land & Buildings	($1,200,000)